

Common sense economics

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Macroeconomics Professor Coppedge December 5, 2011 Common Sense Economics Common Sense Economics is packed with valuable information, and approaches presenting this information in a way that is less dry than a conventional textbook. Although there is a lot to learn in this book, I feel like I have already been introduced to 90% of the content in class, this book is simply a supplement and review. The book is broken down into 4 sections: Ten key elements of economics, Seven major sources of economic progress, Economic progress and the role of government, and Twelve key elements of practical personal finance.

I believe the discussion of personal finance outlined in the fourth section, while important, is outside of the scope of this course and will therefore not be discussed in this paper. This book is very much a textbook, therefore going through the material and listing off what is in the book will not be feasible in such a short paper, I will however cover the information that struck me as the most interesting or important.

Almost everything in the first part of the book is common sense, there is nothing free, people respond to incentives, decisions are made in the margin, profit drives business decisions, the invisible hand. The points that I found more interesting were points 7 and 10: People earn income by helping others and too often long-term consequences of an action are ignored. The book states that if you figure out a way to help other people you will be rewarded with a large income.

Even people who are damaging themselves believe that they are getting what they want, for instance cigarette smokers, they are ruining their bodies and destroying their lives, but they want the cigarette and by helping them

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get the cigarette, companies make a very large amount of money. Cigarette smoking can also tie into point 10: Too often long-term consequences, or the secondary effects, of an action are ignored. Many people who smoke will tell you that they simply “ don’t think about it” because they know if they consider the secondary effects, or the opportunity cost of their decision to smoke, they would quit. Of the second section in the book: Seven major sources of economic progress, I find point number 4 the most interesting. An efficient capital market, this is something that I had not thought of when considering things that need to happen for the economy to grow, it is something that happens behind the scenes and you don’t hear much about it, but it seems like one of the more important driving forces.

If there is no-one investing capital into wealth creating projects then the economy will continue to only grow minimally until there is a way of getting money into the hands of investors. I believe that investors need to have low barriers to entry, i.e. taxes and fees, but they do need to be held accountable for any botched projects, this will give investors a reason to seek out good investments and let the bad investments sink rather than making Americans pay for them.

Perhaps one of the more interesting topics of discussion is: Economic progress and the Role of Government. This topic can go on for days, but the basic functions that the government needs to fulfil in order for the economy to progress are: protect the private rights of individuals and supply goods that cannot be provided through markets. There are many things that can impede the government from doing its job, the most prevalent in my opinion

is human nature. Voters vote for politicians promising the most benefit to them, ignoring rule 10 of part 1.

The book states that “ unless [the government is] restrained by constitutional rules special interest groups will use the democratic process to fleece taxpayers and consumers. ” The reason this happens is because of rule 1 in part 1, incentives matter, everyone is attempting to get the most out of the system for themselves, without considering external costs. Overall, this book breaks down complex economic ideas into something that is easily understandable and the examples given are easily relatable. I will definitely keep this book for my reference, and I will refresh my self on it every couple of years.